

Statement of John Fawcett before
the U.S. House of Representatives
Committee on Energy and Commerce
May 16 2005

Introduction

Thank you for inviting me to appear before the committee at today's hearing. I have worked internationally for the past 25 years. I spent ten years in oil exploration in the Middle East and Africa. The following ten years I was involved in humanitarian and human rights work largely in the Balkans and Iraq. Over the last five years I have been tracking the financial assets of major human rights abusers, including Slobodan Milosevic, Saddam Hussein, and al Qaeda. I have contracted to a variety of governmental, non-governmental, and for profit organizations. I began looking at the Oil for Food program in 1998, and was a co-author with Susan Blaustein of Sources of Revenue for Saddam and Sons. The paper was published in 2002 by the Coalition for International Justice and they have graciously agreed to sponsor my appearance today.

History of Saddam's Corruption

The Oil for Food program can not be viewed separately from the history of corruption under Saddam Hussein. Saddam began his financial rip-offs in the late 1960s with the establishment of his first shell companies in Milan and Lugano. In the mid 70s he instituted a 5% rake-off on all Iraqi oil exports, with the proceeds being sent to Swiss bank accounts via major US banks in New York City. Shortly after seizing the Iraqi presidency in 1979 he invaded Iran and an arms embargo was imposed. He actively violated the embargo with the assistance of many countries in what came to be known as Iraqgate. Within days of his invasion of Kuwait in August 1990, comprehensive international sanctions were imposed. Within hours an energetic campaign of sanctions busting began. After surviving the first Gulf War, he directed that the sanctions busting be greatly expanded.

When the UN began negotiating with Iraq in 1991 to establish the oil for food program, (and the first negotiations were led by then Assistant Secretary General Kofi Annan) no one dealing with Iraq could credibly say they were not aware of the potential for corruption. UN Secretary General Perez de Cuellar knew. His successor Boutros Boutros Ghali knew. Kofi Annan knew. The members of the Security Council certainly knew. All the permanent members, with the exception of China, had been active participants in embargo busting with Saddam throughout the previous decade. The embargo busting involved both kickbacks to Saddam as well as invoice padding, two methods of illicit activity that were later widely used during the Oil for Food Program.

Two types of rip-offs

By the time the program began in late 1996, the UN had ceded to Saddam the authority to choose his business partners for both the sale of Iraqi oil and the purchase of humanitarian supplies. This crucial decision laid the groundwork for the ensuing corruption. There were two major methods of illicit profiting by the regime and a host of minor schemes.

Oil vouchers were given to favored individuals or organizations that provided Iraq with political support. The vouchers were then sold to an official UN approved contractor. This contractor received the oil at a discount and then sold it on to other traders and eventually to major refiners. The illicit profit in this scheme amounted to up to \$1 million per tanker load. Two oil for food contractors who were very adept at this were the shady Swiss-Liechtenstein firms Alcon and Fenar. These companies were created in the haven of corporate secrecy, Liechtenstein, for the sole purpose of doing illicit business with Saddam Hussein's Iraq. Alcon and Fenar were official UN contractors as well as voucher recipients. Aside from kickbacks the political services they provided to Saddam are as yet unknown. To this point the Swiss and Liechtenstein authorities have failed to publicize the beneficial owners of either company, despite these firms

having been identified as suspicious as early as January 2001. The Liechtensteiners, who for a fee, put their names to the corporate registry documents were; for Alcon, Rainer Marxer and Martin Batliner; for Fenar, Patrick Hilty and Horst Buchel. Between them, Alcon and Fenar did nearly \$2.5 billion worth of business under the program, of which some \$400 million was done in the last few months of Saddam's reign. One wonders whether this money is funding the car bombs that are tearing apart men, women and children in Iraq on a daily basis.

The other major scam in the oil for food program involved over charging or invoice padding for goods sold to Iraq. One commodity in which this practice took place was baby formula. It normally sold for about \$2000 per ton, but a corrupt supplier would charge the UN on behalf of Iraq, \$2500. The difference was again split with the Iraqi officials. While the UN and others mounted public campaigns decrying the suffering and deaths of Iraqi children, price gouging was taking place on the very product that could help these children. If there is anything that UNICEF knows how to do, it is to procure, transport and distribute baby formula. They do so in war zones and disasters worldwide. While UNICEF continually published Iraqi government statistics on child mortality related to sanctions, not once did they raise a voice about the baby formula rip-off.

Sham Inspections

The inspection procedures for oil exports as well as for humanitarian imports were toothless from the beginning. The inspectors had no mandate to prevent smuggling of oil out of Iraq, or smuggling of goods into Iraq. The inspectors had no mandate to check the quality of food or medicines entering Iraq and usually failed to check even the quantity of goods being imported. At the Jordanian, Syrian and Turkish border crossings, hundreds of trucks entered Iraq daily with sanctions busting goods and left Iraq carrying sanctions busting oil. The inspectors could do nothing more than tip their hat and wave their clipboard.

This was an exercise in futility and many inspectors sunk into frustration or inebriation.

After studying and thinking about this program for several years, I have come to the conclusion that the inspections regime established by the UN was window dressing only. To be clear, I believe that UN officials set up the procurement as well as the inspection regime of the Oil for Food program in such a manner as to allow Saddam Hussein to personally profit from it. The Security Council was fully aware of the potential for corruption under the program at every step of the negotiations.

Why was it allowed to happen?

Knowing the nature, both in cruelty and corruption of the regime they were dealing with, why would these international officials allow such a system to come into place? First there is a certain anti-American predisposition that has built up over decades within the UN. This tends to look skeptically at US positions on issues and more sympathetically at US opponents. This is not an unhealthy posture by itself. Second, there was a perception that there was a catastrophic humanitarian situation in Iraq and that the population was on the verge of starvation. All of the data upon which the assessments of the humanitarian situation in Iraq were made was generated by the Iraqi government. It was also in the financial interest of the UN humanitarian agencies to increase the amounts of funds allocated to Iraq. These factors contributed towards fostering an international public perception of impending disaster. The third reason why international officials would agree to a system that profited Saddam Hussein is that they also stood to gain financially. Officials of over 100 countries, either profited illicitly from the Oil for Food program, failed in their oversight duties to prevent corruption, or both.

What made the graft under the oil for food program different from other international financial scandals was the use of the illicit gains by Saddam

Hussein. He did not just fatten the Jordanian and Swiss bank accounts of his family and cronies, though there was plenty of that. The illicit funds were also used to create a political slush fund of global proportions. He bought presidents, prime ministers, legislators, ambassadors, media and NGO officials, and actively funded the anti-sanctions campaign.

Could the UN have done anything?

With an Iraqi regime very experienced in corruption, a weak Security Council, and officials and businessmen from dozens of countries eager to put their hands into Saddam's pockets, was it possible for the United Nations to do anything except acquiesce to corruption? The answer is yes. In the face of all these cards stacked against it, there was one essential ingredient to assist the Iraqi people as well as battle corruption. The UN had to be led by honest and courageous officials.

From 1996 to the end of the program in 2003, had the UN been led by honest and courageous officials, they would have done the following.

- Instead of awarding the first major monitoring and banking contracts via a secretive back-door process, senior UN officials would have insisted on adhering to their own competitive bidding regulations and opened the process to public scrutiny. Had they done so the weak monitoring effort would have been exposed before the program began and the allegations of conflict of interest by the Secretary General and his son would have been addressed.
- An aggressive effort would have been made to vet all contracts for price and quality. The Security Council had instructed the UN to do so, but they made token efforts at best. Even the few contracts which UN officials found to be overpriced were never acted upon by the Security Council. However, UN officials did not have to be satisfied with just passing the buck to the Security Council. There was nothing stopping

them from releasing all contract data publicly. There would have been some embarrassed businesses and member states, but the practice of invoice padding would have been nipped in the bud.

- The whole process of selecting oil buyers should have been exposed to the light of scrutiny with the public release of oil contract information and an insistence by the UN that all oil purchasers publish shareholder or beneficiary lists. UN officials again excused themselves by claiming that Iraq could choose its own customers as long as those customers were also approved by the relevant member state. As a result the UN found itself involved in financial transactions with weapons dealers, money launderers, organized crime and terrorists. This was inexcusable.
- UN monitors should have acted like the weapons inspectors and been far more aggressive. UN personnel had the right and obligation to monitor any distribution of goods inside Iraq. The great majority of them never left their office and relied exclusively on the government of Saddam Hussein to tell them where and to whom the goods were distributed.

We will be paying for this for a long time

Even though the oil for food program was shut down nearly two years ago, the scandal is not receding into history. The oil for food program took place during the former Soviet Bloc's transition from a command to a competitive economy. It took place during a generational change in many of the ruling families in the Middle East. It took place during the emergence of new economic powerhouses China and India. During times of political and economic ferment, these countries were major players in the oil for food scandal. Officials from all of these countries, who may be in power for decades to come, took away a clear lesson. The ground rules of the new global economy have not yet been written in stone. While some argue for transparency, accountability and a level playing field, others maneuver for insider advantage and see bribery and corruption as

acceptable business tools. The oil for food program gave a tremendous boost towards the institutionalization of corruption within the global economy, the repercussions of which have barely begun to emerge.